

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0761-05
Bill No.: Perfected HCS for HB 444, 217, 225, 239, 243, 297, 402 & 172
Subject: Elderly; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue
- Income
Type: Original
Date: February 19, 2007

Bill Summary: Would exempt Social Security benefits, annuities, pensions, and retirement allowances and up to \$6,000 in individual retirement plan income from interest, dividends, and capital gains from state income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(More than \$468,120,215)	(More than \$481,129,524)	(More than \$494,133,245)
Total Estimated Net Effect on General Revenue Fund	(More than \$468,120,215)	(More than \$481,129,524)	(More than \$494,133,245)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	3.0	3.0	3.0
Total Estimated Net Effect on FTE	3.0	3.0	3.0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** (DOR) assumed a previous version of this proposal would allow a deduction of social security benefits included in the Federal Adjusted Gross Income of a taxpayer. This deduction would require Taxation to add a line to the Form MO-A.

Personal Tax would require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Tech I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P & PTC forms, and 1 Tax Processing Tech I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Customer Services would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation and 1 Tax Collection Technician I for every 24,000 calls a year to delinquency/collections due to lack of documentation. They will also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices. DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

In summary, DOR submitted a cost estimate for eight FTE additional staff, and related equipment and expense with a total of \$337,796 for FY 2008, \$361,811 for FY 2009, and \$370,91 for FY 2010. The DOR estimate for a similar proposal in the previous session included only three new FTE. In response to a similar proposal in the previous session (HB 1941, LR 4411-03), DOR assumed the need for three additional FTE Tax Processing Tech I plus four tax season temporary employees.

Oversight will use the previous DOR assumption, and will further assume that DOR would be able to implement the proposal with existing IT staff. If multiple provisions are enacted requiring additional staffing or if unanticipated costs are incurred, DOR could request resources through the budget process.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional staff to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assumed a similar proposal (HB 239, LR 799-01) would permit those people filing individual income taxes to deduct social security benefits that are included in federal adjusted gross income, annuities, pensions, and retirement allowances from Missouri adjusted gross income. EPARC estimated that net general revenue collections would be reduced by \$365 million if the proposal was implemented.

Oversight will utilize the EPARC estimate for the initial reduction in annual tax collections from the proposal to exempt social security benefits that are included in federal adjusted gross income, as well as annuities, pensions, and retirement allowances. Oversight has estimated the cost of exempting individual retirement plan yields of capital gains or taxable interest using published economic and demographic data:

Missouri estimated population total:	5,755,000
Missouri estimated population under 25:	(1,973,000)
Missouri estimated population over 25:	<u>3,782,000</u>
 Total Missouri income from interest, dividends, and capital gains	 <u>\$8.441 Billion</u>
 Average amount per person over 25 (\$8.441 Billion / 3,782 Million)	 <u>\$2,232</u>
 Missouri population over 65	 <u>766,000</u>
 Estimated income from interest, dividends, and capital gains for population over 65 (766,000 x \$2,232)	 <u>\$1,710,000</u>
 Estimated tax at 6%	 <u>\$103,000,000</u>

ASSUMPTION (continued)

The data used above includes interest, dividends, and capital gains which Missouri taxpayers reported under existing statutory provisions. Oversight assumes that taxpayers would take increased distributions from individual retirement plans if the proposal was enacted. Therefore the initial estimated cost of the proposal would likely be more than \$368 million. Oversight has analyzed cost of living increases for social security benefits; over the past five years benefits have increased an average 2.72 percent. Oversight assumes the other retirement benefits exempted from taxation would have similar cost of living increases; therefore, Oversight will assume a 2.72% annual increase in lost revenues due to anticipated cost of living increases.

Oversight is not able to estimate the potential for revenue reductions as a result of additional taxpayers filing returns who would not have filed a tax return under existing conditions, and Oversight is not able to determine the potential for revenue reductions due to the impact of this proposal on the existing Circuit Breaker and Homestead Exemption provisions.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) stated that a previous version of the proposal would have no fiscal impact to their organization, and deferred to EPARC or DOR for an estimate of the revenue loss.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	<u>FY 2008</u> <u>(10 Mo.)</u>	<u>FY 2009</u>	<u>FY 2010</u>
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (3 FTE)	(\$53,460)	(\$66,077)	(\$68,059)
Fringe Benefits	(\$23,554)	(\$29,113)	(\$29,987)
Tax Season Temporaries	(\$26,650)	(\$32,780)	(\$33,599)
Expense and Equipment	(\$16,551)	(\$1,554)	(\$1,600)
<u>Total Costs - DOR</u>	<u>(\$120,215)</u>	<u>(\$129,524)</u>	<u>(\$133,245)</u>
<u>Loss - Department of Revenue</u>			
Revenue reduction due to a deduction for social security benefits, annuities, pensions, and retirement allowances, and dividend, interest, and capital gains income.	<u>(More than \$468,000,000)</u>	<u>(More than \$481,000,000)</u>	<u>(More than \$494,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(More than \$468,120,215)</u>	<u>(More than \$481,129,524)</u>	<u>(More than \$494,133,245)</u>
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Estimated Net FTE Change for General Revenue Fund	<u>3.0 FTE</u>	<u>3.0 FTE</u>	<u>3.0 FTE</u>
<u>FISCAL IMPACT - Local Government</u>	<u>FY 2008</u> <u>(10 Mo.)</u>	<u>FY 2009</u>	<u>FY 2010</u>
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.


FISCAL DESCRIPTION

The proposal would exempt Social Security benefits, annuities, pensions, and retirement allowances, and up to \$6,000 in individual retirement plan income from interest, dividends, or capital gains from state income tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic Policy and Research Center



Mickey Wilson, CPA
Director
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